

Message Text

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PAGE 01 KINSHA 10395 131249Z
ACTION EB-03

INFO OCT-01 SS-14 ISO-00 AF-04 NSC-05 NSCE-00 INR-05 SP-02
L-01 TRSE-00 IO-06 /041 W
----- 108797 /45

P 131135Z DEC 76
FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC PRIORITY 926

C O N F I D E N T I A L KINSHASA 10395

LIMDIS

E.O. 11652: GDS
TAGS: ECON EFIN CG
SUBJECT: IMF MISSION TO ZAIRE

1. IMF REP RUSSO SAW MOBUTU DECEMBER 11. HE LEFT WITH THE PRESIDENT A MEMORANDUM WHICH DESCRIBED THE RESULTS OF THE CURRENT STABILIZATION PROGRAM, UNDERLINING THE AREAS WHERE THE GOZ HAD FAILED TO LIVE UP TO ITS LETTER OF INTENT. RUSSO ALSO TOLD MOBUTU THAT HE WOULD RETURN TO WASHINGTON TO WRITE UP HIS REPORT OF THE CONSULTATIONS AND TO DRAFT THE NEW STABILIZATION PROGRAM ASSOCIATED WITH THE HIGHER TRANCHE DRAWINGS. RUSSO DID NOT GO INTO DETAIL WITH MOBUTU AS TO CONDITIONS OF THE SECOND STANDBY, BUT RATHER EMPHASIZED THE STRICTNESS OF THE NEW PROGRAM, THE INEVITABLE STOPPAGE OF FUND DRAWINGS IN THE EVENT OF ZAIRIAN FAILURE TO ABIDE BY THE STANDBY CONDITIONS, THE RESULTANT STOPPAGE OF DRAWINGS FROM THE PRIVATE BANKS UNDER THE FRIEDMAN PLAN AND THUS THE VERY REAL DANGERS MOBUTU WOULD FACE IF HE WERE TO SIGN THE SECOND STANDBY AND THEN FAIL TO LIVE UP TO IT.

2. RUSSO THEN MADE HIS CENTRAL PITCH, POINTING OUT THAT UNLESS CHANGES WERE MADE IN THE ECONOMIC DECISION-MAKING PROCESS, THERE WOULD BE NO BASIS FOR A CONTEXT WITHIN WHICH A SECOND STANDBY COULD OPERATE. IN SUM, RUSSO DESCRIBED THE FOLLOWING GENERAL PRECONDITION FOR A SUCCESSFUL SECOND STANDBY:

--THOSE ZAIRIAN OFFICIALS RESPONSIBLE FOR CARRYING OUT THE STABILIZATION EFFORT MUST BE GIVEN BOTH THE RESPONSIBILITY AND THE AUTHORITY TO DO SO -- FREE FROM INTERVENTION ON THE PART OF POLITICAL AUTHORITIES.

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RUSSO GAVE THE FOLLOWING EXAMPLES OF THE KIND OF CHANGES WHICH

WOULD BE REQUIRED BY THE FOREGOING PROPOSITION.

(A)THE MINISTER OF FINANCE WOULD HAVE TO APPROVE ALL GOVERNMENT EXPENDITURES IN ADVANCE AND WOULD HAVE TO HAVE THE AUTHORITY TO REFUSE IF SUCH EXPENDITURES WENT BEYOND THE BOUNDS OF THE STANDBY AGREEMENT.

(B)THE CENTRAL BANK WOULD HAVE TO CONTROL ALL FOREIGN EXPENDITURES TO ASSURE THAT THE STANDBY CONDITIONS AND PRIORITIES WERE MET. THE GOVERNOR OF THE BANK, LIKE THE MINISTER OF FINANCE, HAD TO HAVE THE AUTHORITY TO REFUSE FX EXPENDITURES WHICH SUBVERT THE STANDBY.

RUSSO MAY ALSO HAVE SUGGESTED TO MOBUTU THAT THE PRESIDENCY BUDGET WOULD HAVE TO BE LAID OUT IN SOME DETAIL SO THAT THESE EXPENDITURES COULD BE BOTH UNDERSTOOD AND CONTROLLED.

3. FINALLY, RUSSO TOLD MOBUTU THAT UNLESS THESE CHANGES WERE MADE SOON, HE COULD NOT SEE HOW THE FUND WOULD BE ABLE TO SIGN A SECOND STANDBY. IN OTHER WORDS, MOBUTU WOULD HAVE TO DEMONSTRATE THAT HE HAS TAKEN THE POLITICAL DECISIONS TO DECENTRALIZE AUTHORITY FOR PROSECUTION OF THE STABILIZATION EFFORT -- BEFORE THE FUND WOULD AGREE TO SIGN THE NEW PROGRAM. RUSSO SAYS THAT MOBUTU TOOK THE PRESENTATION EXTREMELY WELL, AGREED THAT ZAIRE HAD NOT COMPLETELY FOLLOWED THE CURRENT STANDBY AGREEMENT, SAW THE IMPORTANCE OF BEING ABLE TO CARRY THROUGH ON THE NEW PROGRAM -- AND PROMISED RUSSO AN ANSWER ON THE PRECONDITION BY DECEMBER 13. RUSSO PROTESTED THAT THE ISSUE WAS IMPORTANT ENOUGH TO REQUIRE THE PRESIDENT'S CAREFUL THOUGHT AND SUGGESTED THAT MOBUTU TAKE HIS TIME.

4. RUSSO WAS PLEASED WITH HIS MEETING, ALTHOUGH STILL SKEPTICAL THAT MOBUTU WILL BE ABLE TO TAKE THE KIND OF DECISION REQUIRED. RUSSO SAYS GOVERNOR SAMBWA WAS ECSTATIC AND BELIEVES MOBUTU IS NOW ON THE RIGHT TRACK. WE WILL CHECK WITH SAMBWA DIRECTLY TO CONFIRM HIS REACTION.

5. FYI: IN THE MEMORANDUM DESCRIBING THE RESULTS OF THE CURRENT STABILIZATION PROGRAM, RUSSO LISTED THE DOMSAT CONTRACT AS AN EXAMPLE -- "AMONG OTHERS" -- OF WHERE ZAIRE HAD VIOLATED THE LETTER OF INTENT. HE DID NOT RAISE IT ORALLY. END FYI.

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6. FOREGOING SHOULD BE HELD CLOSELY FOR SEVERAL REASONS:

(A)RUSSO SPECIFICALLY ASKED US NOT TO REPORT TO WASHINGTON UNTIL HE RETURNS THERE AND HAS A CHANCE TO BRIEF HIS SUPERIORS. RUSSO IS GOING BACK THROUGH ROME AND WON'T BE IN WASHINGTON UNTIL THE END OF THIS WEEK. WE PROMISED THAT WE WOULD NOT UPSTAGE HIM.

(B)IF THE WORD WERE TO GET OUT HERE OR IN WASHINGTON THAT RUSSO HAD LAID OUT PRECONDITIONS FOR THE SECOND STAND-

BY -- WHICH PRECONDITIONS IMPLIED A DECENTRALIZATION OF
MOBUTU'S AUTHORITY -- THE PRESIDENT MIGHT BE UNNECES-
SARILY EMBARRASSED AND REFUSE TO ACCEDE. ON THE CONTRARY,
IF MOBUTU MAKES THESE DECISIONS SEEMINGLY ON HIS OWN AND
BEFORE THE STANDBY AGREEMENT, HIS FACE WILL BE SAVED.
(C)WE ARE NOT ABSOLUTELY SURE WE HAVE THE WHOLE STORY.
RUSSO HAS BEEN RETICENT WITH US AND WHAT HE DID SAY WAS
WAS ELLIPTICAL. GIVE US A FEW DAYS TO CONFIRM THIS
REPORT.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC STABILITY, ECONOMIC COOPERATION, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 DEC 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: vogelfj
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976KINSHA10395
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760458-1099
From: KINSHASA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761249/aaaabqcq.tel
Line Count: 125
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: vogelfj
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2004 by BoyleJA>; APPROVED <09 SEP 2004 by vogelfj>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IMF MISSION TO ZAIRE
TAGS: ECON, EFIN, CG, IMF, (MOBUTU SESE SEKO), (RUSSO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006